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Special Report

Financial Futures And Options

DUN'S BUSINESS MONTH

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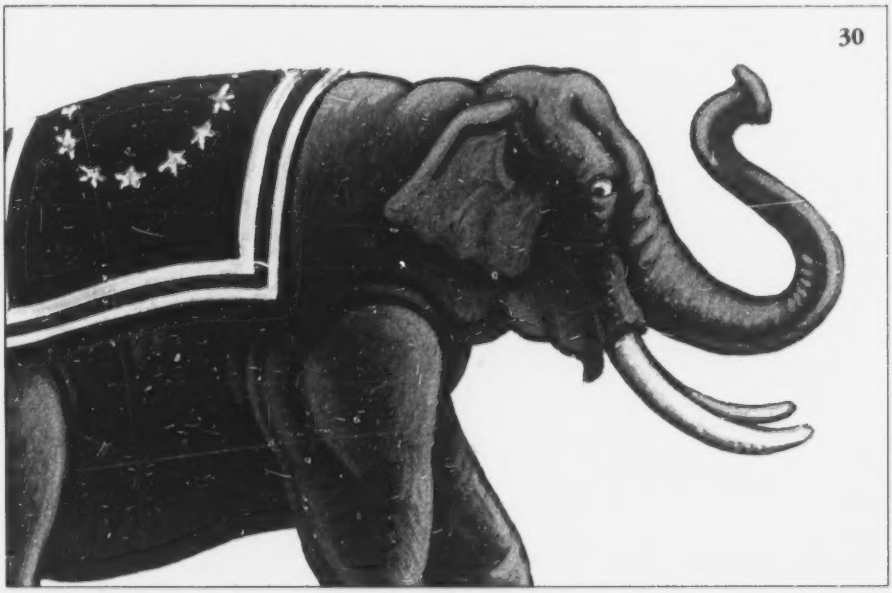

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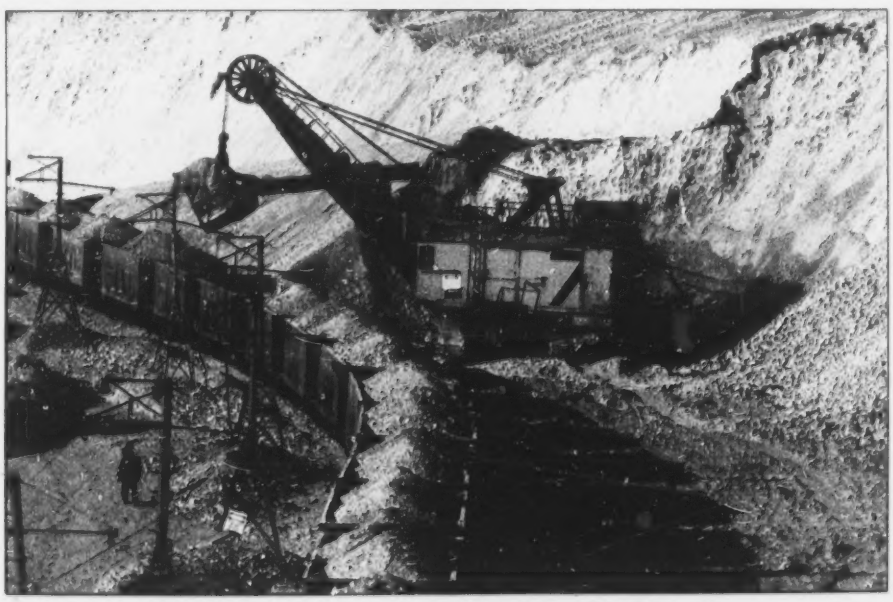

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Rosy Outlook For Sales

Now that the economic expansion is on a smooth upward flight path, it's easy to forget the bumpy takeoff. The outlook for sales is an excellent example of how the recovery is rising above its initial turbulence. Despite the fact that last year's gains were surprisingly spotty, the vast majority of firms in the DUN'S 5000 survey expects sales volume to increase this year.

In light of new information about actual sales experience in 1983, this across-the-board optimism is especially encouraging. The DUN'S 5000 survey reveals that nearly 25% of large firms (5,000 or more employees) had lower sales in 1983 than in 1982. More than 40% of small firms with 100 or fewer employees told the same unhappy tale. Only 9% of the big companies had sales gains of more than 25% and about 31% had moderate increases of 10%-to-25% for the year.

The same unusually modest performance for the first year of a recovery was reported by middle-sized firms with 100-to-5,000 employees, with only 16.8% enjoying sales gains of over 25% and another 28% realizing moderate gains of 10%-to-25%.

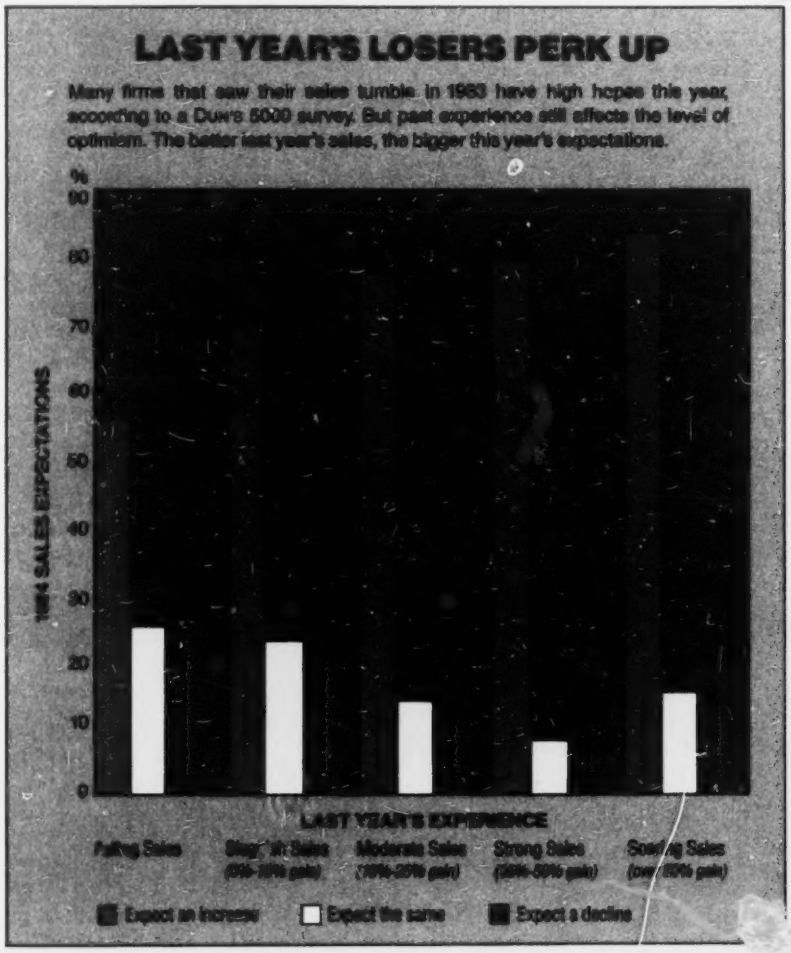
Among industries, the only exceptionally strong gains were in finance, insurance and real estate. About 15% of the companies in these sectors saw their sales volume soar by more than 50%. The weak spots, especially among larger firms, were largely in basic industries such as steel, primary metals and autos.

But now the picture has changed dramatically. Among companies of all sizes and sectors, less than 8% of the DUN'S survey sample expect 1984 sales to fall below last year's level. Even firms that suffered a drop in sales in 1983 are now upbeat, with only 12.1% of this group expecting a repeat of the dismal decline they experienced last year.

The fact that a large majority of companies is anticipating these substantial sales gains, in spite of the expansion's uneven and halting start, provides solid support for the view that real growth this year should be more than 7% above 1983 levels.

—JOSEPH W. DUNCAN

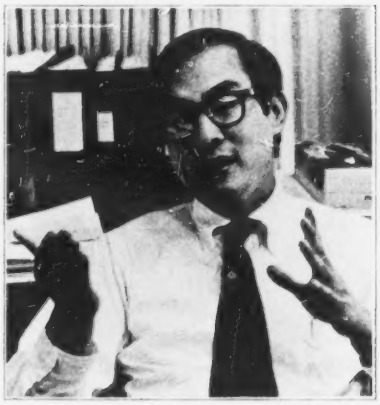
Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.



HERSHMAN ON WALL STREET

More Gains Ahead for Bell Offshoots

Despite all the naysaying of skeptics last year, the pieces of American Telephone & Telegraph Co. are worth more today than they were before the divestiture, says utility analyst Ernest Lui of Goldman, Sachs & Co. While the market as measured by the S&P 400 (including dividends) was down 3%, the new AT&T and the seven regional phone companies have returned almost 14% in capital gains and dividends. And despite the runup their shares have already enjoyed, Lui believes that Ma Bell's offshoots are solid long-term investments, with potential returns in capital appreciation and dividends of around 15% annually.



Lui: The regionals are benefiting from regulatory generosity

In fact, the regionals' growth rate started picking up this year and should continue as long as we avoid a national recession, according to Lui. While it's not possible to compare the earnings performance of the seven regionals with their pre-divestiture records because of changes in accounting, he observes, earnings for the June quarter are up distinctly from the March quarter. And he expects the September quarter profits to be still stronger. "Earnings performance has surpassed the expectations of investors and analysts," he says.

This is partly due to the extremely hefty rate relief that the state utility commissions granted the regionals in 1983 and 1984. Moreover, the regulators have been highly sensitive to the competition the regionals face and their need to cut phone rates to keep business customers. The concern over losing the business of users that bypass the local network appears overblown at present, Lui says, although the threat could reemerge.

Behind Lui's confidence is the dynamic growth of telecommunications. "Unit volume expansion in this industry will be among the most impressive of any in the U.S. out into the next century," he maintains. Voice traffic should expand at an 8%-to-10% annual clip for the next fifteen years, and Lui forecasts that data traffic will rise 20%-to-25% a year over the next ten years. "We are confident that the regionals will be capitalizing on these rising unit demand prospects," he says.

Another source of future growth is more intensive use of existing phone facilities. "The managements are all pushing very hard to induce customers to make more calls per phone line and to introduce more information services such as burglar alarm monitoring," Lui notes. Consumers will also be users of video text, electronic banking and electronic mail, and the phone companies will collect a monthly fee or line charge as well as the phone charge for each call. But Lui thinks it will be five years before there is a reasonable base of users for these services.

As a stock group, Lui believes the similarities among the regionals are more striking than their differences right now. The stocks yield almost the same amount, with the lowest at 8.5% and the highest at 8.9%. Moreover, their stock prices all move together with changes in interest rates. Their performance correlates closely with long-term bond fluctuations, moving up when bond rates decline and vice versa. As a result, he says, "their near-term performance may be hampered by interest-rate increases."

"Over time, of course, the differences among the regional telephone companies will become more pronounced," Lui says, and this will be accompanied by a widening differential in future growth prospects and ultimately earnings and dividends. At recent prices, Lui's favorites in the group are Bell Atlantic for steady growth and acceptable current income; Pacific Telesis for improvement in rate of return; and BellSouth, which is trading at a depressed price because of pending rate cases, for a stock price rebound.

Lui believes that Bell Atlantic's compact territory—the corridor running from Washington, D.C. to northern New Jersey—with its highly dense population and big customers, should be the pioneer in creating data communications traffic. "The regulatory climate for Bell Atlantic is possibly the most constructive of all the regionals," he says.

Over the next several years, Lui expects Bell Atlantic's earnings to grow an average 7% a year and dividend increases to average 6% a year. For 1985, he sees a slower advance to $10.50 a share from this year's $10.05 and a dividend move up to $6.70 from 1984's $6.40. He believes the stock could rise 5%-to-7% in price, which, plus the stock yield of 8.8%, could produce a total return over the next year comparable to the market rising to